DAVENPORT'S COMPETITIVE ECONOMICS[1]

I. FRUITS OF THE NEWER THEORY

Judgments will vary as to what are the main propositions of this book. This variation will result, not only from the subjective viewpoints of the readers, but also from the shifting position of the author. I submit that the leading features of this volume, in respect to the fundamental theory, marking it as "modern," and distinguishing it from the older so-called orthodox distributive theory, are as follows:

1. The abandonment of the categories of land and of artificial capital.

2. The adoption of the value concept of capital and its application both to land and to artificial agents.

3. The treatment of capitalization as a process of estimation, applicable to all incomes that can be put into salable form.

4. The treatment of cost of production, not as connected with a labor sacrifice, but merely as a business calculation of the price of goods at any intermediate stage of exchange.

5. The treatment of cost in all cases, broadly viewed, as the result of price rather than as the cause of it.

6. The recognition of the ambiguity in "capital," it being taken either as a means of individual acquisition, or as a source of social incomes, from which ambiguity results a confusion of individual and social welfare.

These ideas, which have become pretty familiar to most American students in the last few years, are, of course, rejected by the Ricardian cost-of-production school, and they seem to mark Davenport as a progressive in relation to the revision of fundamental theory now in process in America. But these ideas are here presented by the author as if they were almost entirely novel, in a volume bringing together, with the fruits of others' labors, the fruits of his own earlier essays in which he had sharpened some features of the doctrines. There would be much less difficulty in judging

[1] *The Economics of Enterprise.* By Herbert Joseph Davenport. New York: Macmillan, 1913. 8vo, pp. xvi+544. $2.25.

his theoretical position and in appraising his real contribution had he not sought to ignore all connection with others of like opinions. The evidence of this purpose is both of a negative and of a positive character. Negative is the fact that in this book of a highly specialized theoretical nature there are given to the reader only the meagerest hints of previous writings, and often no hint whatever, even where the text is but an expansion and illustration of ideas already fully developed by others. Such a standard of scholarship is to be condemned, for, without conscientious references, essays in the field of controverted doctrines can attain but little of their possible service.

Positive evidences of the purpose above mentioned are repeated statements to the effect that the ideas expressed by the author are in advance of all contemporary economic opinions, when they are mainly in accord with the opinions held by members of the psychological school, and out of accord merely with the older Ricardian economics. There is, it is true, a recognition at one point that the notion of capital he is accepting is held by some other writers, though by whom or when held is not indicated. Reference is made (p. 161) to a "long and bitter controversy," and to other questions which still "divide the science," and it is said that "the later view" is the one "presented here." Beyond this obscure remark there is no reference in this connection, and no clear reference anywhere, to the movement of thought of which the present book is but a part, and without a knowledge of which it cannot be properly judged by any reader.

In summing up the doctrines of *laissez faire*, and of an ambiguous social concept of capital which he opposes, Davenport expressly attributes them to all his contemporaries:

> For all these are the concepts and categories and doctrines of current economics in general. They are the common property of the classical and of the modern. This equipment of terms and theories and presuppositions is the common possession of economic thought in the large—not of this school or the other, not of ancient or of modern, not of cost doctrinaires or of utility doctrinaires, but of the genus economist in general [p. 515].

After pursuing this policy of neglect and unconscious misrepresentation, Davenport casts at his contemporaries one more ungrateful dart. This he does in the preface (proverbially the last thing

written in a book). The preface begins: "In questions of economic theory the writer conceives himself, as among his colleagues of the craft, to be in essentials rather a conservative than an innovator."

"The moderns," as he calls them, whom he has ignored throughout the book, he then reproves "for the violence done by them to the older doctrine." His purpose he declares to be "to reconstruct the established principles and categories"; and more in the same chiding spirit. Unless there is some meaning here not readily apparent, this is meant to give the cut direct (intellectual, of course, not affectional) to those American economists who have for two decades been developing a progressive economic theory. There are many of us who should like to agree with the main features of the author's arguments. We should like to greet him as one of "the moderns," but he passes us by on the other side. But for this, I should point to the present book as in some respects a further fulfilment of the forecast in my paper of the year 1900 on "The Next Decade of Economic Theory," a forecast which had already in 1910 been in large measure justified. In its main principles and categories, the book under discussion is in measurable accord with the American psychological doctrines. If, however, the author is to be taken at his word in the preface, I know not what interpretation to put upon the theoretical content of the book. Whether the preface is meant as a bit of mischievous humor to confuse the conservative critics, or whether as an apology, or whether as an odd way of showing contrition for the radical conclusions of the final chapter, is still an enigma. In any case, the preface gives a real Stocktonian Lady-or-the-Tiger tone to the whole book. Only this is sure: the orthodox economists will have nothing to do with Davenport's theory; and he will have nothing to do with that of anyone else—progressives, single-taxers, or socialists. His outlook is lonely.

II. THE PRICE CONCEPTION OF ECONOMICS

Let us turn now to the novelties of doctrine. The chief of these, which indeed gives form to his whole presentation and doubtless determines the title of the book, lies in his conception and definition of economics as limited entirely to the realm of exchange in a

money economy, that is, to a régime of monetary price. This is connected with, and develops out of, one of the general ideas of the book, that individual gain does not coincide with social welfare, and particularly that capital in the possession of the individual need not correspond with wealth as a substantial resource in the community. Thus far the idea is not new, for it was apparent to many of the earlier dissenters from the doctrine of *laissez faire*, such as Lauderdale and John Rae, and it was not ignored even by Ricardo and Malthus, as is shown in their attempts to distinguish between "value and riches and their distinctive properties."

While an almost unbroken series of students has recognized the need of this contrast, the word "capital" continued to be used ambiguously, to the confusion both of theory and of practice in economics. In America, J. B. Clark started a new line of inquiry and of effort at classification when he presented his value concept of capital.[1] Others took up this idea, showing more fully how capital as a concept of private possession was to be contrasted with social wealth. Some unwarranted inferences were drawn from this proposition, and these called forth a protest from Professor Commons.[2] He declared that the newer tendency was the philosophy of business economics, and not a true political economy. This distinction, he said, "is especially called for when business economy sets itself up as the real political economy. The work of Clark, Fetter, and Fisher is admirable and indispensable, not only in its own sphere of business economics, but also as a contrast to the sphere of political economics." An error in this comment lay in the assumption that the newer criticism was responsible for introducing this particular confusion, which in truth had always permeated economic thought. The newer criticism, at least a part of it, had but revealed the cause of error, and thus had made possible the ending of error.

Of any recognition that the capital concept has had such a history, there is no trace in this book. Not a footnote betrays to the reader that the value concept has any following among American

[1] *Capital and Its Earnings*, 1888.

[2] "Political Economy and Business Economy," *Quarterly Journal of Economics*, XXII, No. 1 (November, 1907), 120.

economists. The numerous students, however, who now see that the capital concept is essentially of this private and acquisitive nature will have difficulty in following Davenport in his definition of economics in terms of price and of private capital, leaving out the public and social aspects. After proposing to define political economy, "in the present competitive order" (p. 24), he arrives at the following: "the science that treats phenomena from the standpoint of price—therefore, mostly, industry and business" (p. 25). He has just given what he calls a definition of price, as follows: "The price of any specific thing (good) reports its exchange relation to money. . . . . Price is merely a particular instance of value—the case where one of the exchanged goods is money" (pp. 23–24).[1]

Price is made thus the mark of economics. "Price, then, must attend and characterize all things that are economic; and all things so attended are so far economic in character" (p. 25). This definition at once creates many troubles. It excludes many things which Davenport is soon compelled to recognize as part of economics. It excludes the subjective problems of value, and the problems of the self-sufficing economy, and yet he says: "The fact fundamental to the production of goods is the desire for goods" (p. 3). It excludes the impersonal relations of man with his environment, yet he has just said: "For our present purposes, the human race as producing agent in its relation to its environment is the subject-matter of our study" (p. 5). It excludes barter and all acts and goods related thereto, and yet he later says: "It will not do to assert that all goods in the present society are produced for sale, but only that, in the competitive order, production for sale is the characteristic fact of that order, and the fact about which most economic problems center" (p. 355). It excludes all incomes not in money form, but later he brings in not merely "psychic incomes," purchased by means of money, but all psychic incomes whether expressed in terms of money or not. This reversal of the plain sense of the definition is done by the simple expedient of introducing the idea of reservation prices, or refusal prices (p. 128),

[1] For conclusions adverse to such a definition of price, see my article in the *American Economic Review*, II, No. 4 (December, 1912), 783.

and then assuming a hypothetical price for everything (p. 490). It becomes part of his problem of distribution to explain the distribution not only of money incomes in society, but "of all those things that, were they exchanged, would command a money price" (p. 490). As eggs eaten on the farm could be marketed, they "possess exchange power, and have a price standing." All subjective valuations thus being *imagined* to be prices, the chapter is summed up: "It should now be clear that . . . . not only does all of this aggregate [total income of society] accrue in terms of price, but also that it is distributed under the price mechanism, in the form of price shares." The psychological elements which at the outset he sought to banish from economics return to reassert their right to a place, to the confusion of his usurping definition.[1]

A price-régime definition of economics, and, above all, a definition in terms of mere monetary price, is indeed most reactionary. It is far less adequate than Adam Smith's idea that "every man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life" (Book I, chap. v). It is less adequate than Bastiat's now rejected view that "c'est cet échange de services qui fait la matière de l'économie politique."

III. THE LOAN-FUND THEORY OF INTEREST

In his earlier book (*Value and Distribution*, 1908), Davenport seemed to be approaching the view that the real problem of interest was found in capitalization, and that the rate of time discount was prior to the interest rate. What was distinctive in his view (besides an eclectic attitude on productivity) was an incipient loan-fund theory, that "the rate of time discount is a rate fixed and determined in the loan-fund market; all properties—instrumental or other—that command a hire receive a value through the application of this interest rate to the computation of the present worth of these hires."[2]

[1] For a discussion of the price definition, see my article in the *American Economic Review, loc. cit.* The reservation price, which becomes the greater part of Davenport's price concept, is there shown to be a troublesome substitute for valuation.

[2] *Value and Distribution*, p. 248.

We have now a fuller discussion of this theory, comprising, with the preliminary material on debts, credits, and banks, fully one-third of the present book. What, then, is this loan fund which promises to be the central fact in the interest theory?

The loan-fund form of capital is a fund of purchasing power seeking borrowers—a fund made up of the standard commodity and of units of credit interchangeable with it [p. 342].

There exist against society in the form of hoarded money, or against banks in the form of bank-notes, deposits, and savings accounts, or against individuals in the form of different species of claims, rights of direction over the application of labor and commodities. Every credit represents such a right. The loan market consists of these rights and of nothing else [p. 341].

This fund is mostly a banking fact. "Banks are the principal creators and the principal custodians of loan-fund capital" (p. 348). But the author has sought to make clear by an example that the loan fund is not essentially a matter of banking, but of existing debts (pp. 339–40). In an imaginary community "still in a barter economy—that is, without money and without institutions for the circulation of credit," there is one man with 999,000 head of cattle, and there are 999,000 farmers needing cattle on their farms. An entrepreneur appears, wishing to construct a railroad. How shall he go about financing it? The wealthy man

would gladly, on approved security, lend indefinite sums—of cattle, but railroad construction cannot be financed on this basis, unless, indeed, to the extent that the cattle can be made to serve as a form of currency. The difficulty is not that there is a lack of wealth in the community, but that this wealth is not in practicably lendable form.

But if, now, it be assumed that these cattle can be sold out on credit among these 999,000 farmers, their notes taken and discounted into deposit credits; or even if against these farmers there are taken contracts or due bills or acceptances or orders dischargeable on demand in labor or in produce, there will forthwith exist in this society a supply of loan-fund capital of a character suited to the needs of the enterprise in hand. . . . . Debts must exist, that is, collectible rights in money or in other forms of wealth—for money is for many purposes only a form of credit—must exist, before these credit rights can be lent; and nothing else can practicably be lent.

The author then concludes that "the volume of loan fund in a society has no direct or necessary relation—still less, proportion—to the wealth of the society in question."

He sees in this creation of debts the significant thing for the loan fund, which is not "a question of the aggregate wealth of society, of the source or nature of it, or of the abstinences conditioning the existence of any part of it" (p. 350). Carried onward by this thought, he comes to see in the banks (not in the wealth or in the lending disposition of the wealthy) the explanation of the loan fund.

We cannot accept this reasoning. The loan fund in this isolated community consisted first of the cattle, which the owner was willing to exchange for promises to pay instead of for immediately consumable things. The railroad-builder might have borrowed the cattle and then have exchanged them for ties, labor, etc., with the farmers. The author notices this and says: "All this must be admitted, but with the important modification that the other way is, for the purpose of the borrowing of capital, an impracticable or even an impossible method" (p. 340). That is, the difficulty lies in the lack of a medium of exchange which had been supposed to be absent but which now magically appears, "collectible rights in money" for "nothing else can practicably be lent." It is the introduction of money which works the change attributed by Davenport to the creation of a supply of credit instruments.

But if there is money the wealthy man can sell the cattle for cash, and lend it to the railroad-builder. The money would then be the loan fund as the cattle were before. The contraction of debts by the farmers is not a necessary condition to the contraction of a debt by the railroad-builder, provided there is anybody with money to lend to him.

Or look at it in another way. Suppose that before there is money, the wealthy man will exchange his cattle only for direct enjoyments (food, clothing, services, etc.), then there would be no loan fund for railroad building. It is the wealthy man's willingness to "abstain" instead of living high, his willingness to transfer to the railroad-builder the accruing rights to collect lumber and labor, that helps explain the second fund. Re-enter the despised abstinence! Or suppose that, money being in use, the cattle are sold for cash, and the cash is spent for enjoyments; here again no loan fund for railroad building. Or suppose, the cattle being sold

on credit, that the interest payments and payments of principal, as they fall due, are used by the creditor for his own enjoyment, then again there is no loan fund. From whatever point we view it, the idea appears chimerical that the loan fund for one purpose is created or increased by lending it first to someone else for another purpose (excepting in so far as the current interest, if not spent for enjoyment, forms a new loan fund for reinvestment). The loan fund consists of what lenders have to lend, not of what the debtors owe. It is a proposition worthy of John Law that the loan fund consists of the obligations of prior debtors rather than of the resources of the creditor. However, Law was Scotch, and this has more of a Hibernian flavor: wealth to loan cannot be loaned until after it is already loaned, whereupon it can be loaned again.

The author possibly hit upon this idea, not in studying this simple case, where the error is so manifest, but in considering the always puzzling part that banks play in making mercantile loans. He is impressed (p. 264) by the fact that the bank, in dealing with its borrowing customers, is able to exchange a credit on its books, a non-interest bearing obligation, for the borrower's note bearing interest. Here is the only basis of the notion that a loan fund is created for the creditor by the debtor's borrowing. The deposit is, to the customer, the equivalent of cash in his till; "in their service to their customers, the banks create currency, and in creating currency they create loan funds" (p. 265). A misleading interpretation is given to this fact. In this peculiar lending power of the bank to its own borrowers, whereby with a cash reserve but a fraction of its deposits it is able to remain solvent, the author sees at first an important part of the loan fund, then nearly the whole of the loan fund, from which results the interest rate.

In this connection note must be taken of the author's conception of the nature of banking; for "the methods peculiar to banking enable one dollar of reserves to support several dollars of credit media appropriate to the loan-fund service" (p. 348). Now "banking is essentially an underwriting of credit" (p. 351); "essentially, therefore, the business of a bank is a form of suretyship—the guaranteeing of its borrowers' solvency—an underwriting of the credit of its customers" (p. 264). He admits that this is not

true, "in point of form," "but essentially it does exactly this" (p. 361). Then, while implying that the bank really lends ("it assumes his debts," becomes "his creditor"), the author looks upon the discount charge not as interest, but as "in substance . . . . an insurance premium for the danger of loss which it accepts in substituting itself as debtor in place of the borrower, and in undertaking, if necessary, to pay on demand in his stead." As debtor to whom, undertaking to pay whom? The primary fact is that the bank becomes a creditor to the borrower. The amount of credit a bank is able to extend its "loan fund" at any time is limited by the ratio of its reserves to deposits, and this depends partly on its resources (capital and surplus) and partly on the degree to which its customers by maintaining large balances permit it to be a debtor to them. Everyone knows the jealous eye a bank keeps on its customers' balances, which are the chief return the bank gets for the useful services it performs for them.

It is difficult to tell at the conclusion of the author's argument whether or not he has lost all faith in his loan-fund theory of interest. He sees that the analysis may have significance merely "for any given time and situation" (p. 350), implying that the fundamental interest problem is untouched. But, after all, he finds comfort in the proposition that "long-time equilibria are no part of the problem of the current supply of funds, or of the current interest rate." He admits that "the foregoing may well be a faulty analysis." After considering the proposition "that banking can have no very important bearing on the long-time level of interest rates" (p. 352), he declares of the banks and their credit-giving functions: "They . . . . affect the general level of prices. In the long run their activity will mostly exhaust itself in this modification of prices" (p. 352). And again: "Only in respect, then, of diminishing the risk element of the rate—but very clearly in this respect—has banking any influence to lower the long-time market rates of loans." This loan-fund theory, introduced as the explanation of the rate of capitalization of all properties, thus becomes, so far as the rate is concerned, merely a factor in explaining the premiums paid for the risk on contractual loans from banks. This

change, however, does not deter the author from ending the chapter with this statement, unwarranted by his own conclusions:

That this loan-fund subdivision of capital is the only capital known to the distinctly financial world, the thing that is lent and borrowed in the capital markets, and the thing which, in getting transferred from lender to borrower, fixes the rate, or rates, of interest with which the business world is familiar; and, that the main business of banking is in the creating or the lending of it [p. 353].[1]

IV. AGAIN THE PRODUCTIVITY THEORY OF INTEREST

After the loan-fund theory of interest has thus evaporated, the author goes on to discuss the more fundamental problem of interest (pp. 367–81) and arrives at an eclectic theory, implying in part an acceptance of the capitalization theory: "The existence of any kind of valuable, durable goods—whether of the production or of the consumption sort—is sufficient to support an interest rate" (p. 379). In close relation with this the author seems to recognize an abstinence theory (p. 378), and again admits a pure psychological theory: "The mere principle of perspective, whether the borrowing be wise borrowing or unwise borrowing, or both, is alone adequate to maintain an interest rate, but is never certain to do so."[2] Along with these views, he most explicitly accepts the productivity theory: "Equally is the technological significance of goods adequate by itself to explain the existence of interest" (p. 381).

There is no need to repeat here the argument by which I have recently sought to show the untenableness of these eclectic solutions, or of the productivity theory alone.[3] That criticism applies in its entirety to the case before us. Let us notice only the illustration which Davenport gives as affording to his mind a crucial test proving that "interest is not mere perspective" (p. 369), meaning thereby that a unified psychological theory of interest is

[1] Such a measure of validity as may be in the explanation of the way the fluctuations of banking credits affect the long-time interest rate is perhaps sufficiently recognized in my recent article on interest theories (*American Economic Review*, IV, No. 1 [March, 1914], 77, note).

[2] In this connection the author makes the not uncommon slip of calling a storage charge and safe-deposit-rent, "negative interest" (p. 381).

[3] *American Economic Review*, IV, No. 1 (March, 1914), 68.

impossible, and that technical productivity alone, where found, is a necessary cause of interest.

> Suppose that today all present needs and desires for immediate consumption have been fully satisfied—a situation in which, by the terms of the assumption, there can be neither any "prospective underestimation" of the future nor any degree of inadequacy in "present provision"—there being in fact no unsatisfied desires for present consumption, but only a clear appreciation of tomorrow's needs. If, now, it be discovered that for each unit of the existing wealth there may by tomorrow be derived two units for tomorrow's consumption, it is clear that there will set in forthwith a vigorous bidding for the currency with which to control the present facts offering a command of tomorrow's consumable goods, and that there must result an interest rate approximating 100 per cent per day, payable at the end of the loan period. And it is equally clear that no one can need the present consumable goods unless to keep them until tomorrow. . . . . The mere presence of gain-rendering goods will always in a competitive and pecuniary society immediately attach an interest rate to money loans, or to loans of purchasing power expressed in money. All that needs be assumed is that the level of prices shall not change. All goods controlling an increment of future goods must therewith control an increment of price [pp. 369–70].

Here the conclusion is begged in the impossible condition that the level of prices shall not change. Prices, we must believe, result from the relation between the amount of exchanges to be performed and the amount of money, and therefore *the level of prices must change* where the quantity of money remains fixed and the quantity of goods to be exchanged is doubled. This is not a place where the argument of "other things being equal" is legitimate. One could as well assume that the population doubled while the amount of food consumed remained unchanged (unless Fletcherism were supposed to become universal, and that would be another new condition).

Consider the case before us. Let each unit of existing goods sell for $10 today. Then it must easily be foreseen that tomorrow, with twice as many goods and the same quantity of money, each article will sell for something less than ten. How much less? About one-half less, let us say, although because of varying elasticity of demand, different kinds of goods would be differently affected. some falling little, others much in price; and although the total exchanges might be more or less than doubled. As goods are not

needed until tomorrow, no one would wish to buy them for his own use at today's prices. One does not buy strawberries in March at March prices, to be delivered in June; or ice at August prices, to be delivered the next February. Nor would anyone wish to buy goods at today's prices as an investment. The loans made today to buy goods to hold until tomorrow must be repaid in the dollars obtained from the sale of the goods at lower prices. A consideration of these facts must dispel the illusion that the gross profits will permit the paying of 100 per cent interest a day.

Even if no one foresaw the outcome here indicated and everyone, accepting the reasoning here criticized, expected prices to remain as high tomorrow, the price adjustment must come through a more indirect and bungling process. There would begin at once today a bidding-up of the prices of goods as well as a bidding-up of the rate of interest on loans with which to buy goods. Must not these two influences meet and counteract each other at some point? As prices rose toward $15 and interest rose toward 50 per cent per day, must it not be clear that trouble for borrowers was coming? If each good (becoming two) is to yield tomorrow a total of $20, it will not pay to buy it now at $15 with money borrowed at 50 per cent a day, for that requires the repayment of $22.50, and involves a loss of $2.50. What possible grounds remain for the belief that the effect of the hypothetical productivity will appear in the rate of interest rather than in the scale of prices? The illustration may well be remanded to the author for a rehearing. Certain it is that it does not prove what he thinks it does. Rather it points anew to the truth of the capitalization theory and to the *fundamental fallacy* of the technical productivity theory of interest.

V. UNSOCIAL ECONOMICS AND ITS RASH CONCLUSIONS

It remains but to consider certain social corollaries, which the author thinks he is warranted in drawing. The theme running through the book that valuations in terms of private capital do not necessarily reflect production in a social sense—a truth often recognized—still needs occasional repetition. It certainly is repeated here: Peruna, as an example of harmful yet valued products, is

administered in large doses; and burglars with their jimmies, and loose women with their flaunting appeals, appear so often that they make some chapters of this book appear like an evening at the uncensored movies.

It would have been well if the author had proceeded more cautiously in extending this notion of predation and exploitation to the whole field of competitive economics—which, by definition, is the only kind he recognizes. Others have seen the truth and likewise its limitations, but Davenport applies the notion zealously to the point of a *reductio ad absurdum*. For as he began by defining economics in terms of the competitive-price régime, his discovery of this taint in price taints all economics. One has the feeling, in seeing him put on full speed ahead on this road, that such theoretical joy-riding is bound to land him in a bog with the machine of his own making turned turtle on top of him. And so it does. Revolting at the conclusions of his own logic, he scraps the whole existing structure of theoretical economics with a ruthlessness that makes Karl Marx by comparison look like an editorial writer on a conservative Wall Street journal. The simple alternative of revising his concept of economics is not chosen. He does not see that he is attributing absurdities to others simply because he assumes that they hold his definition of economics.

Indifferent to the larger social spirit which long has pervaded economic writings, Davenport characterizes them as if we were still in the days of Nassau Senior at his worst (p. 519). He scouts political economy as "a pious aspiration," "busy picturing Utopias," lacking "all touch with life," "a sheer farce." He describes contemporary economics as "a system of apologetics, the creed of the reactionary, a defense of privilege, a social soothing syrup, a smug pronouncement of the righteousness of whatever is—with the still more disastrous corollary of the unrighteousness of whatever is not" (p. 528). And there is much more in this vein. One may expect and pardon such riotous rhetoric in a self-trained zealot like Henry George, or in a persecuted revolutionary like Karl Marx, but even they hardly excelled Davenport in the extravagance of their language. If the kind of economic doctrine that he denounces is the kind he has believed in, then he is well rid of it,

and we rejoice with him. But some of us, having lived fairly temperate lives, are not very keen for his Keeley cure.

He declares that "two-thirds of the durable, private bases of income in the United States are nothing else than this capitalization of privilege or of predation" (p. 519). "Five-ninths of the durable wealth reported by the census is made up of privately appropriated social wealth" (p. 521). He thus arrives at conclusions which he declares "show how tragically inadequate is the single-tax program" (p. 522), and which seem to carry him well-nigh to the length of radical communism. Nevertheless, he disavows the purpose of "inditing any sort of socialistic screed" (p. 522), and disclaims "all theoretical sympathies" with the socialists (see preface). He thinks his conclusion is derived in an original way from his notion that private capital does not always correspond with social welfare. But it needed no elaborate study of competitive capital to arrive at this goal. This is but the labor theory of property (not necessarily, perhaps, but usually, connected with the labor theory of value): property should be limited to things produced technically by human exertion; anything else is unrighteous. Applying the crude labor value-theory (usually linked with the name of Ricardo), various thinkers quickly drew the conclusion that all private property meant exploitation of the propertyless. Applying the Ricardian doctrine of land rent, Henry George drew his conclusions as to wrongfulness of property in land. Is there anything novel in the view before us? It has the same doctrinaire character as the others, overlooking the grounds of social history, social expediency, and social productivity of a big institution like private property, considered as a going concern. It is only on grounds such as these that modern thought would justify it. Of course, it is the task of citizenship to stop fraud and cheating, corruption, public and private, whereby many private possessions are wrongfully acquired; it is the task of economic policy to correct the errors of the past and by experience to determine for the future a better delimitation of the forms of private property. But these difficult tasks of discrimination are not made easier by undiscriminating denunciation.

Those American economists who have been laboring for a reformulation of economic theory along the lines which in con-

siderable measure Davenport too has traversed, must particularly regret the need of parting company with him in these important conclusions. Excesses such as these endanger, or at least retard, the progress of the better modern theory. The newer conception of economics is taking account both of the private and of the public phases of economic questions, is earnestly striving neither to confuse them, nor to overlook one or the other, and is becoming a more efficient agency in social reasoning. The many students of economics who have already, even when under adverse pedagogic influences, gained some sympathy with, and insight into, the newer theory may rest assured that it leads toward life and service, not to economic hari-kari.

FRANK A. FETTER

PRINCETON UNIVERSITY